



The Daily Dish

What's Up With Productivity?

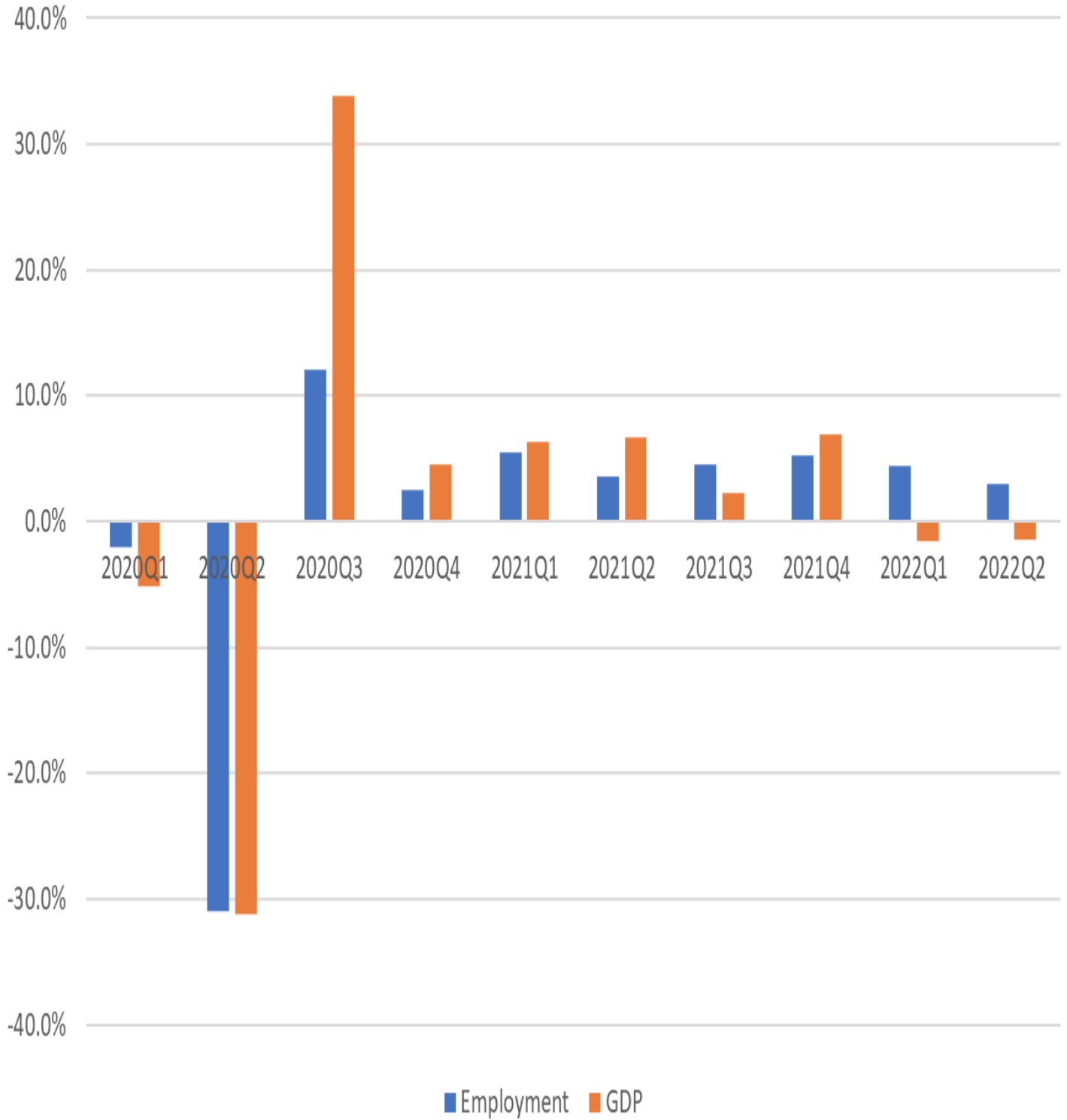
DOUGLAS HOLTZ-EAKIN | JULY 18, 2022

Concerns over a recession in the United States in the next 12 months continue to [rise](#). Indeed, an influential tracking measure of economic growth – the Atlanta Fed's [GDPNow](#) metric – currently indicates that the second quarter estimate of growth in gross domestic product (GDP) will be -1.5 percent when released on July 28. If so, this will mark the second consecutive quarter of negative growth. While not [officially a recession](#), this will fan the recession talk to inferno-like levels.

Meanwhile, the most recent jobs report showed that the economy added another 372,000 jobs in June; indeed, employment has risen for 18 straight months. Can the economy be sinking as employment rises?

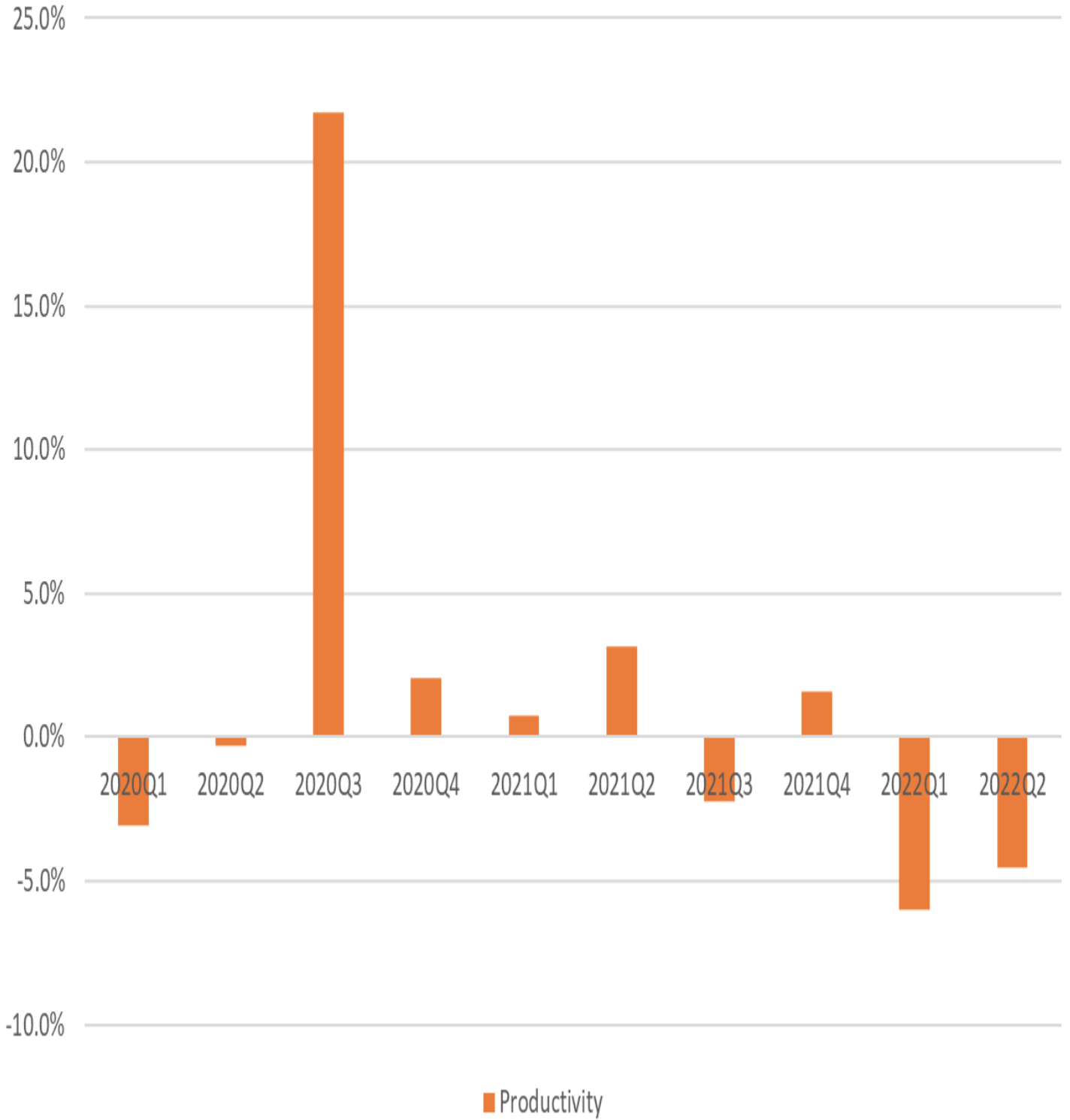
The chart (below) summarizes the quarterly growth rates of employment and GDP since the start of 2020. Through the end of 2021, employment and output growth moved in the same direction. But while employment continued to grow in the first quarter of this year, GDP fell. If GDPNow is right, the same pattern will prevail in the second quarter.

GDP and Employment Growth 2022Q2 Projected



A different way to summarize the data is to look at the growth in GDP per worker – a crude measure of labor productivity. This is shown below. Productivity fell during the COVID-19 recession and boomed as the economy recovered in the third quarter of 2020. Productivity growth stayed positive until the second half of 2021 and could be on track to fall in three quarters of the past year.

Implied Labor Productivity Growth 2022Q2 Projected



Why is the United States suffering a productivity recession? At least part of the explanation is probably the changing composition of the workforce. As the economy pulled out of the recession, businesses initially called back their most productive workers and the sectors that recovered first were among the most productive sectors. The result was the boom in 2020.

Now, the process is running in reverse. The sectors that are recovering last – service sectors such as leisure and hospitality – are among the lower-productivity sectors and the workers being hired at this point are the less educated and least experienced of workers. The result is employment growth, but not commensurate output growth.

Of course, there is no guarantee that GDP will fall in the second quarter (Eakinomics suspects that it will not). But regardless, as the labor market cools in response to Fed tightening, the more traditional productivity relationships will likely re-emerge.